



THERE IS LUCK.

AND THERE IS SCIENCE.

Investing is a science.

It requires a plan and

discipline to follow the plan.

Anything short thereof is blind exploration.

Summer 2019—The Pause That Refreshes

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: The second quarter of 2019 was unremarkable in many ways with most indexes adding slightly to the gains made in Q1. For example, the S&P 500 was up 4.30%, the Nasdaq Composite up 3.87% and our benchmark, the Morningstar US Small Growth index, finished plus 2.47% for the period. The Rocket Small Cap Growth Composite added .58% which is somewhat disappointing but not when you consider our outstanding gains in the first quarter.

What is remarkable is the path the markets took to get there. For example, after reaching a modest new high on May 6, the Nasdaq Composite corrected sharply, down roughly 10% in just under a month, before reversing abruptly. This kind of action is just what is needed for the markets to digest the outsized gains of the first quarter.

The news backdrop leading to this volatility was largely driven by the day-to-day developments in trade negotiations, or a lack thereof, with China and other trading partners. This coupled with the fear of an inverted yield curve, which has been a precursor to recessions in the past, led to a sharp reduction in investor confidence as depicted by the dramatic drop in the Investors Intelligence data. Also, after a prolonged period of increasing revenue and earnings per share growth, expectations for robust growth looking forward have been called into question. On the plus side, the Fed is clearly moving towards lowering interest rates not raising them which experience reminds us, “Don’t fight the Fed”.

The combination of great volatility followed by a period of quiet consolidation is exactly what the stock market needs before another meaningful advance can begin. While it is hard to build a case for stock market performance like we experienced in the first half of 2019, it can’t be ruled out. Lastly, if there is another period of weakness over the next several months, I expect it to be modest and short lived.

TECHNICAL PERSPECTIVE: From a technical perspective, many of the considerations that are important to sustain an uptrend are in place. The advance declines for most indexes are still trending upward. The 50- and 200-day moving averages have flattened out but continue to edge higher and positive individual charts still outnumber those that are negative by a wide margin.

As you would expect, most of the widely followed indexes are consolidating recent gains after making new highs although not very convincingly. What is most interesting to me is the small cap growth index is nearly 10% below its all-time high and consolidating just above major support. If the index holds that level, and resumes its uptrend, and I believe it will, small cap stocks should outperform large cap stocks by a significant amount in the second half of 2019.

There are a couple of factors that do cause me some consternation, however. First, and most recent, the Bulls vs Bears weekly survey of newsletter writers as published by Investors Intelligence last week featured 58% bullish advisors compared to just 16.80% bearish which suggests that market sentiment is very over bought at present. Second, and more importantly, is that not only have there been an extraordinary number of initial and secondary public stock offerings done in 2019, they are no longer popping to large premiums after the deals which suggests the supply has begun to outstrip demand. As I have mentioned in previous newsletters, this rarely occurs in the early stages of an uptrend but generally in the later phases.

All that said, the stock market remains in an uptrend until proven otherwise and in my opinion the small cap segment of the market should outperform handsomely in the second half if the market advances. We will be watching the small cap growth index very closely to dictate our next move.

SECTOR COMMENT: The Information Technology Sector continued to provide leadership in the second quarter led by the strength in the Computer Software group featuring Computer Software Enterprise, Security and Medical. On the hardware side many of the semiconductor related segments are beginning to trend higher again after a period of consolidation. The Healthcare sector remain mixed with the best action in the Medical-Systems and Equipment sector followed by the Biomed/Biotech group. Also, very strong are the Gold and Silver Mining sectors. Why, I am not quite sure.

PORTFOLIO ADJUSTMENTS: In the second quarter we added four new positions including Inseego (INSG *4.79), Mimecast (MIME *46.71), BioDelivery Sciences International (BDSI *4.65), and LiqTech International (LIQT *9.91), all having excellent charts and fundamentals. We sold five positions entirely including Quantenna Communications (QTNA *delisted), CynergisTek (CTEK *4.84), BioTelemetry (BEAT *48.15), Shotspotter (SSTI *44.20), and nLight (LASR *19.20), because they broke down technically, or, in the case of QNTA, due to acquisition. We trimmed our position in Planet Fitness (PLNT *72.44) as it grew into too large a position.

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COMPANY HIGHLIGHT: LiqTech International is a beneficiary of IMO 2020 regulations which places limits on marine Sulphur emissions. In order to comply, shippers have 2 options: use an expensive alternative fuel or install a marine scrubber which removes Sulphur oxides from exhaust gas.

LiqTech is a leader in membrane filters which are a critical component of marine scrubbers. Its filters are fully automated, easy to install, require minimal maintenance, and are built with silicon carbide which makes them very durable.



It has a strong and visible revenue ramp as it is in the very early stages of an estimated 8,000-10,000 ships that will install a scrubber by 2025. It reported 210% revenue growth in 1Q19, is expecting another strong Q2, and is right on the verge of profitability.

In summary, after a period of consolidation following the strong returns in the first quarter, most major indexes appear poised to break out from very strong base patterns which should lead to a meaningful advance. If that is the case, I fully expect the small cap group to outperform as it has the best chart pattern and has some catching up to do after a very lackluster second quarter. As always, I strongly believe our unique combination of technical and fundamental analysis will serve us well. Please reach out to us if you have any questions or comments.

Sincerely,

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Sr. Vice President

The Morningstar US Small Growth as an index more comparable to the portfolio make up of the Rocket Capital Small Cap composite. All indexes and our composite are reflective of dividend reinvestment. Our composite does not represent all accounts of Rocket Capital Management, just those invested in that strategy. Past performance is not an indication of future returns. Individual investment returns may be different than the composite returns presented.

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